



Department of Defense INSTRUCTION

NUMBER 3200.DD

DDR&E

SUBJECT: Cost Sharing in DoD Research Programs Using Assistance Instruments

References: (a) DoD Directive 5134.3, "Director of Defense Research and Engineering", August 31, 1994
(b) DoD Directive 3210.6, "Defense Grant and Agreement Regulatory System", February 27, 1995.
(c) Executive Order 13185, "To Strengthen the Federal Government-University Research Partnership," December 28, 2000
(d) DoD Instruction 5000.2, "Operation of the Defense Acquisition System," April 5, 2002
(e) through (h), see enclosure 1

1. PURPOSE

This Instruction establishes, under the authority vested in the Director of Defense Research and Engineering (DDR&E) in references (a) and (b), cost-sharing policies and practices for DoD research programs that use assistance instruments.

2. APPLICABILITY

This Instruction applies to the Office of the Secretary of Defense, and to the Military Departments, Defense Agencies, and DoD Field Activities that manage research programs or make assistance awards under research programs (hereafter referred to collectively as "the DoD Components").

3. DEFINITIONS

Terms used in this Instruction are defined in enclosure 2.

4. POLICY

Executive Order 13185 (reference (c)) states that federal agency cost-sharing practices must be communicated clearly to potential proposers and recipients of assistance awards. Procedures for meeting this requirement are contained in Enclosure 3.

5. RESPONSIBILITIES

5.1. The Director, Defense Research and Engineering, under the Under Secretary of Defense for Acquisitions, Logistics, and Technology shall:

5.1.1. Monitor compliance with this Instruction.

5.1.2. Maintain and update this Instruction, as well as issue additional DoD guidance as necessary.

5.2. The Heads of the DoD Components shall:

5.2.1. Disseminate these procedures to offices that manage research programs and make assistance awards under those programs.

5.2.2. Ensure that those offices comply with the procedures.

6. PROCEDURES

DoD Components must use the cost-sharing procedures in enclosure 3 to ensure that cost sharing is used appropriately in research programs using assistance instruments. Note that these procedures do not apply to procurement contracts. The DoD policy for research and development contracts, prohibits cost sharing if there is not a reasonable probability of potential commercial applications. (See subparagraph 4.7.1.5. of DoD Instruction 5000.2 (reference (d)) and subparagraphs C2.9.1.4.4.2. and C2.9.3.2. of DoD 5000.2-R (reference (e)).)

7. EFFECTIVE DATE

This Instruction is effective immediately. However, it is not retroactive for previously issued announcements.

SIGNATURE BLOCK

Enclosures - 3

- E1. References, continued
- E2. Definitions
- E3. Cost-Sharing Procedures

E1. ENCLOSURE 1

REFERENCES, continued

- (e) DoD 5002-R, "Mandatory Procedures for Major Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," April 2002
- (f) OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," September 1999
- (g) OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," August 1997
- (h) DoD 3210.6-R, Department of Defense Grant and Agreement Regulations, April 1998 (which also is Subchapter B, Chapter I, Title 32, Code of Federal Regulations)

E2. ENCLOSURE 2

DEFINITIONS

E2.1. DEFINED TERMS

E2.1.1. Advanced Research. Efforts that create new technology or demonstrate the viability of applying existing technology to new products and processes in a general way. Advanced research is most closely analogous to pre-competitive technology development in the commercial sector (i.e., early phases of research and development on which work is not so coupled to specific products and processes that the results of the work must be proprietary). It does not include development of military systems and hardware where specific requirements have been defined. This type of research is typically funded under Budget Activity 3, Advanced Research (sometimes also called Advanced Technology Development).

E2.1.2. Applied Research. Efforts that attempt to determine and exploit the potential of scientific discoveries or improvements in technology such as new materials, devices, methods and processes. Applied research normally follows basic research, but may not be fully distinguishable from the related basic research. The term does not include efforts whose principal aim is the design, development, or testing of specific products, systems or processes to be considered for sale or acquisition. This type of research is typically funded under Budget Activity 2, Applied Research.

E2.1.3. Assistance. The transfer of a thing of value to a recipient to carry out a public purpose of support or stimulation authorized by a law of the United States. Grants and cooperative agreements are examples of legal instruments to provide assistance.

E2.1.4. Basic Research. Efforts directed toward increasing knowledge and understanding in science and engineering, rather than the practical application of that knowledge and understanding. This type of research is typically funded under Budget Activity 1, Basic Research.

E2.1.5. Cost Sharing. That portion of project or program costs not borne by the Federal Government.

E2.1.6. Research. Basic, applied, and advanced research.

E3. ENCLOSURE 3COST-SHARING PROCEDURES

E3.1. The purpose of these procedures is to ensure that DoD Component officials apply cost sharing appropriately in research programs using assistance instruments. These procedures apply to program managers, grants and agreements officers, or other DoD Component officials who make decisions about the use of cost sharing in those programs. DoD does not have an across-the-board cost-sharing requirement for its research programs. DoD Components' program offices may use cost sharing in individual programs on a case-by-case basis, but only in accordance with these procedures.

E3.2. These procedures are important because inappropriate use of cost sharing can:

E3.2.1. Be unfair to research performers. For example, when program announcements do not clearly state how cost sharing will be considered in the evaluation and selection of proposals for funding, it is possible for potential proposers to receive differing interpretations on whether cost sharing makes a difference. That creates an unlevel playing field for competition.

E3.2.2. Create financial hardship for performers, harming their future ability to carry out cutting-edge research and other programs for DoD needs. For example, an institution of higher education principally draws funds for its activities from tuition, gifts, Federal funds, and State funds (in the case of public universities). Unjustified cost sharing in programs involving institutions of higher education therefore can harm the nation's university research and science and engineering education enterprises, by drawing funds for research costs from sources that otherwise support undergraduate education or the broader research infrastructure. Harming those enterprises, which serve critical defense-related purposes, is counter to the DoD's long-term interests.

E3.2.3. Disqualify some of the best technical proposals, due to the proposer's inability to cost share.

E3.3. Cost sharing may only be used in assistance programs where there is a clear policy basis for it.

E3.3.1. The policy basis may take one of the following two forms:

E3.3.1.1. The policy basis may be externally imposed. For example, some research programs have authorizing statutes that either require cost sharing or encourage it (e.g., by requiring its use "to the maximum extent practicable"). Other research programs have either statutory or non-statutory language indicating a Congressional intent that research performers demonstrate a commitment to the program's purpose through means such as cost sharing.

E3.3.1.2. The program's purpose may provide a policy basis for cost sharing. Requiring cost sharing is highly appropriate for programs intended to generate benefits for the performer that extend beyond DoD-related benefits. An example would be a program to support dual-use research with good potential for both commercial and defense applications, in order to provide commercially available technology for defense needs. Requiring cost sharing is appropriate in this example not only because performers should benefit financially from commercialization, but also because cost sharing is strong evidence of their judgment that the technology is likely to be commercially viable.

E3.3.2. A corollary to the principle discussed in paragraph E3.3.1.2 is that it is inappropriate to require cost sharing or to pressure a proposer into offering cost sharing when a program's purpose is to carry out research or build research infrastructure for DoD purposes. The absence of a cost-sharing requirement does not preclude the acceptance of cost sharing, if it is offered by the proposer. However, cost sharing cannot be used as a criterion in the evaluation of the proposal, unless the program announcement specifically states how cost sharing will be considered in the evaluation process.

E3.3.3. A program's purpose may make the ability of expected performers to cost share a factor in determining appropriate cost-sharing usage for the program. In programs designed to stimulate high-technology firms from the commercial marketplace to perform defense research, for example, consider the type of firm that the program wishes to attract. Small start-up firms likely are less able to cost share than well-established larger firms. Similarly, the ability of an institution of higher education to cost share can vary widely based on its size, whether it is public or private, and whether it primarily serves minorities underrepresented in science and engineering.

E3.3.4. Budget augmentation is never to be used as a reason to require cost sharing.

E3.4. Cost sharing may be either an eligibility criterion or a review criterion.

E3.4.1. An eligibility criterion is a firm requirement, prerequisite for award, that research proposals must include cost sharing. Required cost sharing as an eligibility criterion may be a certain percentage or amount. For programs in which cost sharing is used as an eligibility criterion, it should be determined (prior to the merit review process) whether the proposal satisfies the program announcement's cost sharing requirements. Proposals that do not satisfy requirements should be returned without further review.

E3.4.2. A review criterion means that cost sharing is considered during the merit evaluation of proposals. If cost sharing is a review criterion, the consideration (i.e., the score) a proposal receives for cost sharing may vary with the percentage or amount.

E3.4.3. An eligibility criterion is distinguished from a review criterion in that it may not be waived, negotiated, or adjusted before award. Either an eligibility criterion or review criterion may be based in statute or regulation or may be imposed by an administrative decision of the DoD Component.

E3.5. Program announcements must state clearly:

E3.5.1. Whether cost sharing is a requirement (i.e., an eligibility criterion). If it is not a requirement, the announcement also must say so explicitly.

E3.5.2. Whether cost sharing is a review criterion. If it is, the announcement must address specifically how it will be considered; i.e., identify the relative importance of cost sharing in the overall evaluation. If cost sharing is not a review criterion, the announcement should state this explicitly, so there is no ambiguity for potential proposers. Vague statements that cost sharing is encouraged, without clarification as to what that means, are unfair to potential proposers.

E3.5.3. What types of cost sharing (e.g., cash or contributions of specified items or activities) are acceptable. The DoD implementation of OMB Circulars A-110 and A-102 (references (f) and (g)), which is in parts 32-34 of the DoD Grant and Agreement Regulations (reference (h)), provides guidance on the acceptability and value of various types of cost sharing contributions.

E3.6. After a program announcement has been issued, it can be amended only to clarify existing cost-sharing requirements. In these rare cases, all proposers must be given sufficient time to address the clarified requirements or to withdraw their proposals. To change cost-sharing requirements in the program announcement, the announcement must be cancelled and a new announcement issued stating the new cost-sharing requirements.

E3.7. During the review of proposals cost sharing may be considered in the following ways:

E3.7.1. During the technical review and selection of proposals for funding, program offices may consider cost sharing only in the ways delineated in the program announcement. For example, if an announcement states that a particular percentage of cost sharing shall be used solely as an eligibility criterion, cost sharing in excess of the required percentage may not be considered during the review process.

E3.7.2. During the financial review of the proposal, cost sharing is limited to what is included as cost sharing in the proposal's formal budget. It does not include inferred costs from statements about efforts the performer will expend, unless those costs are reflected in the formal budget.

E3.7.3. During program officers' discussions with the proposer's technical representatives (e.g., principal investigators or project directors), it is inappropriate for a program officer to suggest or imply that an award is contingent upon the awardee increasing cost-sharing contributions, or to try to increase the amount of cost sharing unilaterally.

E3.8. Many DoD Components maintain open announcements of their research interests, against which they consider proposals over an extended period of time. Proposers who are not aware of an open announcement may submit to a DoD Component what they believe are unsolicited research proposals. In such a case, where the unsolicited research proposal would actually qualify for consideration under an existing open announcement, it would be appropriate to evaluate the proposal consistent with any cost-sharing review criteria included in the open announcement.